

Baltimore's Fiscal Situation is Healthy Following Repayment of Loan

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NEW YORK (Standard & Poor's) Aug. 5, 2004--With the timely repayment of \$34 million to the City of Baltimore from the Baltimore City Public School System (BCPSS), Standard & Poor's Ratings Services has left its 'A+' rating on the city's general obligation debt unchanged and remains comfortable with the city's fiscal management oversight and management practices.

City officials said that BCPSS met its Aug. 2, 2004, loan repayment date and repaid \$34 million of its total \$42 million temporary loan to the city. The remaining \$8 million under the loan package is expected to be repaid by June 30, 2006. With the bulk of the loan repaid, the city's reserves will return to a healthy level of about 10% of expenditures and transfers out--which is where reserves were before the temporary loan was made.

In March 2004, the city provided BCPSS with the temporary \$42 million loan to help the school system meet its operating needs. Without this loan, the school system would not have had sufficient resources to meet its operating needs through fiscal year-end June 30, 2004. The school system still has significant financial challenges, highlighted by a \$58 million accumulated deficit in fiscal 2004. More recently, a Maryland State Department of Education review of the school system's Federal Title I and Idea Grants for fiscals 2001-2004 recommended that the department of education collect \$18.2 million from the school system for misused funds. Should all or part of these funds need to be repaid, or if future monies are withheld, the school system would be under significant additional financial strain.

While the school system still faces significant financial hurdles, much has been accomplished to date. The strong cooperation between the school and city management is noteworthy. To this end, a fiscal operating committee was established and a financial recovery plan implemented that is being monitored regularly. Moreover, significant cost savings have been achieved through program and staff reduction--with an estimated \$30.0 million in savings projected for fiscal 2005, out of a \$683.5 million budget. In fiscal 2005, BCPSS plans to reduce the \$58 million accumulated deficit to about \$23 million, largely through these expenditure reductions. The budget also proposes the establishment of a "rainy day" fund, with \$10 million to be deposited into this fund in fiscals 2005 and 2006. To achieve these savings, significant cost-containment measures have been implemented, including the reduction of about 1,000 school employees through layoffs and attrition.

Standard & Poor's will continue to monitor developments involving the school system and the city. The rating on the city's general obligation debt remains at 'A+' and the outlook is stable. Standard & Poor's, a division of The McGraw-Hill Companies, provides widely recognized financial data, analytical research and investment, and credit opinions to the global capital markets. With more than 5,000 employees located in 20 countries, Standard & Poor's is an integral part of the global financial infrastructure. Additional information is available at .

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